

Kaleva Norman Dickson School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2008

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MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Kaleva Norman Dickson School District’s (the “District”) annual financial report presents a discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2008. It is to be read in conjunction with the District’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

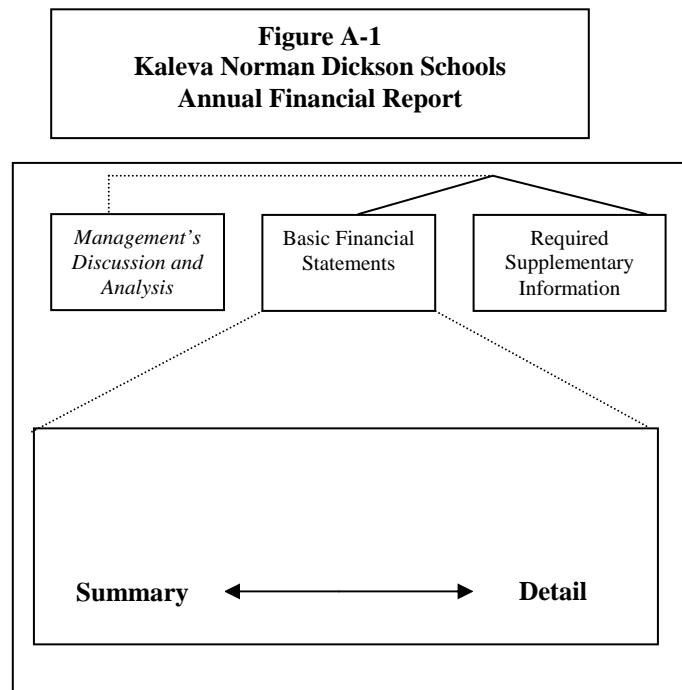
The District’s financial status took a significant downward turn due to a decrease in enrollment, soaring health insurance and energy costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



**Figure A-2
Major Features of District-Wide and Fund Financial Statements**

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration must be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and State formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's *combined* net assets were less on June 30, 2008 than they were the year before - decreasing by \$445,217.

District Governmental Activities - The District's declining financial position is the product of several independent factors, including a decrease in student count, and soaring health insurance and energy costs.

Table A-3 KND's Net Assets		
	2007	2008
Current and other assets	\$ 3,349,074	\$ 3,141,434
Capital assets	9,565,778	9,057,579
Total assets	12,914,852	12,199,013
Long-term debt outstanding	11,054,766	10,713,404
Other liabilities	2,937,573	3,008,313
Total liabilities	13,992,339	13,721,717
Net assets (deficit)		
Invested in property and equipment, net of related debt	(1,706,336)	(1,906,787)
Restricted	220,944	282,394
Unrestricted	407,905	101,689
Total net deficit	\$ (1,077,487)	\$ (1,522,704)

Table A-4
Changes in KND's Net Assets

Revenues	2007	2008
Property Taxes, levied for general purposes	\$ 1,848,554	\$ 2,008,842
Property Taxes, levied for debt services	828,272	830,287
State aid not restricted to specific purposes	4,825,324	4,541,039
Interest and other	212,703	202,448
Charges for services	241,491	243,746
Capital grants/contributions	25,021	22,631
Operating grants/contributions	1,425,016	1,289,928
Total revenues	9,406,381	9,138,921
Expenses		
Instruction	4,644,655	4,866,557
Support services	2,655,263	2,707,703
Community services	87,585	94,796
Food services	493,310	520,375
Athletics	145,291	135,294
Other	40,296	9,269
Interest on long-term debt	591,970	573,187
Depreciation - unallocated	661,439	676,957
Total expenses	9,319,809	9,584,138
Increase (decrease) in net assets	86,572	(445,217)
Net deficit - beginning of year	(1,164,059)	(1,077,487)
Net deficit - end of year	\$ (1,077,487)	\$ (1,522,704)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported *combined* fund balances of \$669,644 which is below last year's ending fund balances of \$964,822. The majority of the decrease is reflected in the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual General Fund operating budget several times. These budget amendments are:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- The District's final budget for the general fund anticipated that the excess of expenditures over revenue would be \$(516,067) and the actual excess of expenditures over revenue was \$(356,339). The factors relating to the deficit are mentioned throughout this document.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2007/08 school year totaled \$17,488,157. During the year, the District invested an additional \$143,338 in two new buses.

Table A -5 KND's Capital Assets			
	2007	Additions/(Deletions)	2008
Capital assets not being depreciated:			
Land	\$ 73,653	\$ -	\$ 73,653
Capital assets being depreciated:			
Building and building improvements	15,410,429	-	15,410,429
Buses and other vehicles	827,167	(164,178)	662,989
Furniture and equipment	1,414,739	-	1,414,739
Gross capital assets	17,725,988	(164,178)	17,561,810
Accumulated depreciation	8,160,210	344,021	8,504,231
Net governmental capital assets	<u>\$ 9,565,778</u>	<u>\$ (508,199)</u>	<u>\$ 9,057,579</u>

Long-term Debt

At year-end, the District had \$10,777,406 in general obligation bonds and \$370,575 in other long-term liabilities – a decrease of \$357,871 from last year. (More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.) New debt was issued during the year through a capital lease for two school bus purchases.

Table A-6 KND's Outstanding Long-Term Debt			
	2007	Net Additions/(Deletions)	2008
General obligation debts			
(financed with property taxes)	\$ 11,182,406	\$ (405,000)	\$ 10,777,406
Accumulated leave liability	233,738	(50,123)	183,615
Capital lease	52,007	134,953	186,960
Notes payable	37,701	(37,701)	-
Total	<u>\$ 11,505,852</u>	<u>\$ (357,871)</u>	<u>\$ 11,147,981</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2008-2009 foundation allowance is estimated to increase to \$7,269/pupil and student enrollment is expected to decline.
- The Kaleva Norman Dickson School District's teacher bargaining unit has a contract through August 31, 2009. The Kaleva Norman Dickson School support staff bargaining unit expired at the end of fiscal year 2008 and the replacement contract remained unsettled for the 2008-2009 school year as of September 29, 2008.
- Health insurance costs continue to rise. Support staff's health insurance increased 8.43%, and teaching staff's health insurance increased 6.6% for the 2008-2009 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Kaleva Norman Dickson School District's Business Office at 1710 Merkey Road West, Manistee, MI 49660.



Business and Financial Advisors
Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Kaleva Norman Dickson School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Kaleva Norman Dickson School District*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Kaleva Norman Dickson School District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages i - vii and the budgetary comparison information on page 24, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the School District. The combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

October 2, 2008

Kaleva Norman Dickson School District

STATEMENT OF NET ASSETS

June 30, 2008

Governmental
Activities

ASSETS

Current assets

Cash and cash equivalents	\$ 2,105,157
Due from other governments	1,006,730
Accounts receivables	18,759
Prepaid expenses	4,110
Inventory	6,571
Due from agency funds	<u>107</u>

Total current assets 3,141,434

Non-current assets

Capital assets, net of accumulated depreciation	<u>9,057,579</u>
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Total assets \$ 12,199,013

LIABILITIES AND NET ASSETS (DEFICIT)

LIABILITIES

Current liabilities

Accounts payable	\$ 135,085
Salaries payable and related expenses	764,509
Accrued interest	101,946
Deferred revenue	42,034
Due to other governments	30,162
State aid anticipation note payable	1,500,000
Current portion of long-term liabilities	<u>434,577</u>

Total current liabilities 3,008,313

Non-current portion of long-term obligations	<u>10,713,404</u>
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Total liabilities 13,721,717

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(1,906,787)
Restricted for	
Capital Projects	185,442
Debt Service	96,952
Unrestricted	<u>101,689</u>

Total net deficit (1,522,704)

Total liabilities and net deficit \$ 12,199,013

The accompanying notes are an integral part of these financial statements.

Kaleva Norman Dickson School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Program	Program Revenues				Net (Expense)/ Revenue and Changes in Net Assets
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 4,866,557	\$ -	\$ 890,055	\$ 22,631	\$ (3,953,871)
Supporting Services	2,707,703	-	19,856	-	(2,687,847)
Community Services	94,796	92,374	-	-	(2,422)
Food Service	520,375	130,670	380,017	-	(9,688)
Athletics	135,294	20,702	-	-	(114,592)
Other	9,269	-	-	-	(9,269)
Interest on long-term debt	573,187	-	-	-	(573,187)
Depreciation - unallocated	676,957	-	-	-	(676,957)
Total governmental activities	<u>\$ 9,584,138</u>	<u>\$ 243,746</u>	<u>\$ 1,289,928</u>	<u>\$ 22,631</u>	<u>(8,027,833)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					2,008,842
Levied for Debt Service					830,287
State school aid - unrestricted					4,541,039
Investment and other					<u>202,448</u>
Total general purpose revenues					<u>7,582,616</u>
Change in net assets					(445,217)
Net deficit, beginning of year					<u>(1,077,487)</u>
Net deficit, end of year					<u>\$ (1,522,704)</u>

Kaleva Norman Dickson School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,747,030	\$ 358,127	\$ 2,105,157
Due from other governments	998,273	8,457	1,006,730
Accounts receivables	-	18,759	18,759
Prepaid expenses	4,110	-	4,110
Inventory	6,571	-	6,571
Due from other funds	<u>58,304</u>	<u>76,477</u>	<u>134,781</u>
Total assets	<u>\$ 2,814,288</u>	<u>\$ 461,820</u>	<u>\$ 3,276,108</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 133,845	\$ 1,240	\$ 135,085
Salaries payable and related expenses	759,140	5,369	764,509
Deferred revenue	41,869	165	42,034
Due to other governments	17,702	12,460	30,162
Due to other funds	76,452	58,222	134,674
State aid anticipation note payable	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
Total liabilities	<u>2,529,008</u>	<u>77,456</u>	<u>2,606,464</u>
FUND BALANCES			
Reserved for Debt Service	-	287,388	287,388
Reserved for Capital Projects	-	96,952	96,952
Reserved for inventory	6,571	-	6,571
Reserved for school based activities	-	24	24
Designated for compensated absences	183,615	-	183,615
Unreserved and undesignated, reported in General Fund	<u>95,094</u>	<u>-</u>	<u>95,094</u>
Total fund balances	<u>285,280</u>	<u>384,364</u>	669,644
Total liabilities and fund balances	<u>\$ 2,814,288</u>	<u>\$ 461,820</u>	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$17,561,810 and the accumulated depreciation is \$8,504,231.

9,057,579

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds and notes payable	\$ 10,964,366	
Accrued interest on bonds	101,946	
Accumulated leave liability	<u>183,615</u>	<u>(11,249,927)</u>

Total net deficit - governmental activities

\$ (1,522,704)

The accompanying notes are an integral part of these financial statements.

Kaleva Norman Dickson School District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 2,007,588	\$ 829,954	\$ 2,837,542
Interest	54,106	13,004	67,110
State revenues	5,035,790	22,972	5,058,762
Federal revenues	351,508	357,045	708,553
Other	<u>234,157</u>	<u>232,797</u>	<u>466,954</u>
Total revenues	<u>7,683,149</u>	<u>1,455,772</u>	<u>9,138,921</u>
Expenditures			
Instruction	4,916,680	-	4,916,680
Supporting Services	2,707,703	-	2,707,703
Community Services	94,796	-	94,796
Food Service	-	520,375	520,375
Athletics	-	135,294	135,294
Other	22,324	234	22,558
Debt Service			
Principal	46,066	405,000	451,066
Interest	62,119	511,357	573,476
Other	-	1,732	1,732
Capital outlay	<u>144,365</u>	<u>9,392</u>	<u>153,757</u>
Total expenditures	<u>7,994,053</u>	<u>1,583,384</u>	<u>9,577,437</u>
REVENUES UNDER EXPENDITURES	<u>(310,904)</u>	<u>(127,612)</u>	<u>(438,516)</u>
Other financing sources (uses)			
Operating transfers in	-	188,773	188,773
Operating transfers out	(188,773)	-	(188,773)
Proceeds from capital lease	<u>143,338</u>	<u>-</u>	<u>143,338</u>
Total other financing sources (uses)	<u>(45,435)</u>	<u>188,773</u>	<u>143,338</u>
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(356,339)	61,161	(295,178)
Fund balance, beginning of year	<u>641,619</u>	<u>323,203</u>	<u>964,822</u>
Fund balance, end of year	<u>\$ 285,280</u>	<u>\$ 384,364</u>	<u>\$ 669,644</u>

The accompanying notes are an integral part of these financial statements.

Kaleva Norman Dickson School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds \$ (295,178)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 168,758	
Capital retirements	(332,936)	
Depreciation expense	<u>(344,021)</u>	(508,199)

In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was less than the amounts used by \$50,123. 50,123

Repayment of bond and note principal and capitalized leases are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets and does not affect the statement of activities. 451,086

Some of the capital assets acquired this year were financed with note and capital lease proceeds. The amount financed by the note and capital lease proceeds is reported in the governmental funds as a source of financing. On the other hand, the note and capital lease proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets. (143,338)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of the increase in accrued interest on bonds and notes payable. 289

Changes in Net Assets of Governmental Activities \$ (445,217)

Kaleva Norman Dickson School District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 57,335
Investments	<u>11,731</u>
Total assets	<u><u>\$ 69,066</u></u>
LIABILITIES	
Due to student groups	\$ 68,959
Due to other funds	<u>107</u>
Total liabilities	<u><u>\$ 69,066</u></u>

The accompanying notes are an integral part of these financial statements.

Kaleva Norman Dickson School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Kaleva Norman Dickson School District (the "School District") is a Michigan public school district consisting of three elementary buildings and one middle school/high school building. The School District primarily serves the Kaleva and Wellston communities. As of June 30, 2008, the School District employed 60 professional staff and 41 non-professional staff and had 873 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework, and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

Financial Reporting Entity

Kaleva Norman Dickson School District's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

NOTES TO FINANCIAL STATEMENTS- Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

NOTES TO FINANCIAL STATEMENTS- Continued

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The 1999 Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Athletics Fund and Food Service Fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The Capital Projects Fund and the Building and Site Fund are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Cash Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 4 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

NOTES TO FINANCIAL STATEMENTS- Continued

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50 years
Buses and vehicles	8-10 years
Furniture and equipment	4-20 years

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as other financing uses.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

Spending Policy

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

NOTES TO FINANCIAL STATEMENTS- Continued

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the School District expended more than budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Other financing uses	\$ 304,813	\$ 319,282	\$ (14,469)

NOTE C - CASH AND INVESTMENTS

At June 30, 2008, the School District's cash and investments include the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash on hand	\$ 814	\$ -	\$ 814
Bank deposits	89,434	-	89,434
Investments	<u>2,072,244</u>	<u>11,731</u>	<u>2,083,975</u>
	<u>\$ 2,162,492</u>	<u>\$ 11,731</u>	<u>\$ 2,174,223</u>

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk - Deposits

As of June 30, 2008, \$671,175 of the School District's bank balance of \$894,873 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS- Continued

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2008 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
MILAF	\$ 2,072,244	\$ 2,072,244	\$ -	\$ -	\$ -
Certificate of Deposit	<u>11,731</u>	<u>11,731</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,083,975</u>	<u>\$ 2,083,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, or Michigan Liquid Asset Funds ("MILAF") and limiting the average maturity.

Credit Risk

The School District's investment policy limits investments in commercial paper to a prime or better rating at the time of purchase and maturing not more than 270 days after the date of purchase. As of June 30, 2008, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-homestead property value of \$111.8 million was levied for general operating purposes. For debt service purposes, \$4.20 per \$1,000 of equalized homestead and non-homestead property value of \$199.6 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2008 are as follows:

Due from the State of Michigan	
State Aid	\$ 915,593
Due from townships - property taxes	9,371
Due from Federal grants	35,234
Other	<u>46,532</u>
	<u>\$ 1,006,730</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Buildings and improvements	\$ 15,410,429	\$ -	\$ -	\$ 15,410,429
Furniture and equipment	1,414,739	-	-	1,414,739
Buses and vehicles	<u>827,167</u>	<u>168,758</u>	<u>(332,936)</u>	<u>662,989</u>
Total depreciable assets	17,652,335	168,758	(332,936)	17,488,157
Less accumulated depreciation	(8,160,210)	(676,957)	332,936	(8,504,231)
Land	<u>73,653</u>	<u>-</u>	<u>-</u>	<u>73,653</u>
Total capital assets, net	<u>\$ 9,565,778</u>	<u>\$ (508,199)</u>	<u>\$ -</u>	<u>\$ 9,057,579</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 676,957</u>
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NOTE F - STATE AID ANTICIPATION NOTE PAYABLE

The State aid anticipation note is secured by July and August State aid payments, bears interest at 3.68% and is due August 2008.

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$11,182,406	\$ -	\$ 405,000	\$10,777,406	\$ 398,997
Notes payable	37,701	-	37,701	-	-
Capital leases	52,007	143,338	8,385	186,960	35,580
Accumulated leave liability	<u>233,738</u>	<u>-</u>	<u>50,123</u>	<u>183,615</u>	<u>-</u>
Long-term debt at June 30, 2008	<u>\$11,505,852</u>	<u>\$ 143,338</u>	<u>\$ 501,209</u>	<u>\$11,147,981</u>	<u>\$ 434,577</u>

Payments on general obligation bonds are made by the Debt Service Fund. Payments on notes payable and leases are made by the General Fund. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS- Continued

At June 30, 2008, the School District's long-term debt consisted of the following:

\$2,800,000 2005 School District Building and Site Bonds for the erecting and furnishing of School District buildings; due in annual installments of \$80,000 to \$230,000 through May 2025; interest rate of 3.25% to 4.15%.	\$ 2,685,000
\$5,330,000 2001 School District Refunding General Obligation Bonds for the advance refunding of a portion of the School District's 1999 bond issue; due in annual installments of \$20,000 to \$690,000 through May 2025; interest rate of 4.20% to 5.125%.	5,215,000
\$8,425,000 1999 School District General Obligation Bonds; due in annual installments of \$15,000 to \$230,000 through May 2021; interest rate of 5.05% to 5.95%.	2,525,000
\$71,818 1998 School Improvement Bond (Durant); due in installments of \$3,997 to \$24,813 through May 2013; average interest rate of 4.8%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	42,406
\$3,244,845 par 1992 School District Capital Appreciation Bonds; due in annual installments of \$48,550 to \$49,515 through May 2010; stated at par plus accretion of \$522,857; interest varies from 6.85% to 6.95%.	<u>310,000</u>
Total general obligation bonds and notes payable	10,777,406
Accumulated leave liability	183,615
Capital leases for buses with a cost of \$206,611; due in annual installments of \$31,747 to \$68,445 through May 2013; interest rate of 3.50% to 5.54% due annually.	<u>186,960</u>
Total long-term debt	<u><u>\$11,147,981</u></u>

Total annual requirements to amortize bonds and notes outstanding as of June 30, 2008 are as follows:

Years Ending June 30.	Principal	Interest
2009	\$ 398,997	\$ 602,000
2010	424,187	602,012
2011	469,813	479,941
2012	479,595	459,572
2013	504,814	482,639
2014-2018	2,925,000	3,549,178
2019-2023	3,780,000	1,015,332
2024-2028	<u>1,795,000</u>	<u>132,564</u>
	<u>\$10,777,406</u>	<u>\$ 7,323,238</u>

NOTES TO FINANCIAL STATEMENTS- Continued

Interest expense for the year ended June 30, 2008 was \$573,187 and interest paid was \$511,357.

Total annual requirements to amortize capital leases outstanding as of June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 35,580	\$ 7,434
2010	62,437	6,007
2011	28,634	3,113
2012	29,636	2,111
2013	<u>30,673</u>	<u>1,074</u>
	<u>\$ 186,960</u>	<u>\$ 19,739</u>

Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District will be receiving \$5,042 to \$23,799 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, or \$71,818, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose.

Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after 10 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

Prior Year Defeasance of Debt

On March 12, 2001, the School District issued \$5.33 million in obligation bonds with an average interest rate of 5.26% to advance refund \$4.96 million of outstanding 1999 general obligation bonds with an average remaining interest rate of 5.27%. The net proceeds of \$4.96 million (after payment of \$117,454 in underwriting fees, insurance and other issuance costs) were used to establish an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded portion of the 1999 general obligation bonds. The outstanding principal of the defeased bonds is \$4.96 million at June 30, 2008.

NOTE H - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

NOTES TO FINANCIAL STATEMENTS- Continued

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Kaleva Norman Dickson School District. At June 30, 2008, there were no significant unbilled claims.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General Fund	\$ 58,304	\$ 76,452
Other Governmental Funds		
Food Service Fund	10,537	-
Athletics Fund	-	38,695
Debt Service Fund	-	773
Capital Projects Fund	-	18,754
Building and Site Fund	65,940	-
Agency Fund	-	107
	<u>\$ 134,781</u>	<u>\$ 134,781</u>

NOTES TO FINANCIAL STATEMENTS- Continued

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Athletics Fund	\$ 113,367	General Fund	<u>\$ 188,773</u>
Food Service Fund	9,687		
Debt Service Fund	<u>65,719</u>		
	<u>\$ 188,773</u>		<u>\$ 188,773</u>

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rate was 17.74% for the period July 1, 2007 to September 30, 2007 and 16.72% for the period October 1, 2007 to June 30, 2008 of annual covered payroll. The contribution requirements of Plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$725,880, \$737,909 and \$750,007, respectively, which is equal to the required contribution for each year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE K - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Kaleva Norman Dickson School District Education Association. The Board of Education and the Kaleva Norman Dickson School District Education Association have a contract for September 1, 2006 through August 31, 2009.

The support personnel at the School District are organized under the Kaleva Norman Dickson School District - Education Support Personnel Association. The Board of Education and the Kaleva Norman Dickson School District - Education Support Personnel Association have a contract for July 1, 2005 through June 30, 2008.

NOTE L - SUBSEQUENT EVENT

The School District borrowed \$1.6 million subsequent to June 30, 2008. The note, plus interest, will be due August 20, 2009 and is secured by fiscal year 2008 - 2009 State aid.

REQUIRED SUPPLEMENTARY INFORMATION

Kaleva Norman Dickson School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2008

				Variances - Positive	
				(Negative)	
	Budgeted Amounts		Actual	Original to	Final Budget
	Original	Final	(GAAP Basis)	Final Budget	To Actual
Revenues					
Local and intermediate sources	\$ 2,237,083	\$ 2,248,174	\$ 2,232,199	\$ 11,091	\$ (15,975)
State revenues	5,151,434	5,034,408	5,035,790	(117,026)	1,382
Federal revenues	369,146	360,303	351,508	(8,843)	(8,795)
Incoming transfers	<u>130,946</u>	<u>263,108</u>	<u>63,652</u>	<u>132,162</u>	<u>(199,456)</u>
Total revenues	<u>7,888,609</u>	<u>7,905,993</u>	<u>7,683,149</u>	<u>17,384</u>	<u>(222,844)</u>
Expenditures					
Instruction					
Basic programs	3,731,476	4,149,142	4,131,331	(417,666)	17,811
Added needs	<u>822,140</u>	<u>819,466</u>	<u>785,349</u>	<u>2,674</u>	<u>34,117</u>
Total instruction	<u>4,553,616</u>	<u>4,968,608</u>	<u>4,916,680</u>	<u>(414,992)</u>	<u>51,928</u>
Supporting Services					
Pupil support	240,045	247,565	239,603	(7,520)	7,962
Instructional staff support	48,709	50,169	48,519	(1,460)	1,650
General administration	235,065	292,991	274,208	(57,926)	18,783
School administration	475,746	492,779	469,750	(17,033)	23,029
Business services	202,029	177,883	171,425	24,146	6,458
Operations and maintenance	918,389	900,391	855,627	17,998	44,764
Transportation	518,914	731,498	688,461	(212,584)	43,037
Other central support services	<u>181,876</u>	<u>149,938</u>	<u>104,475</u>	<u>31,938</u>	<u>45,463</u>
Total supporting services	<u>2,820,773</u>	<u>3,043,214</u>	<u>2,852,068</u>	<u>(222,441)</u>	<u>191,146</u>
Community services	<u>107,129</u>	<u>105,425</u>	<u>94,796</u>	<u>1,704</u>	<u>10,629</u>
Total expenditures	<u>7,481,518</u>	<u>8,117,247</u>	<u>7,863,544</u>	<u>(635,729)</u>	<u>253,703</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>407,091</u>	<u>(211,254)</u>	<u>(180,395)</u>	<u>(618,345)</u>	<u>30,859</u>
Other financing sources (uses)					
Other financing uses	(324,638)	(304,813)	(319,282)	19,825	(14,469)
Proceeds from capital lease	<u>-</u>	<u>-</u>	<u>143,338</u>	<u>-</u>	<u>143,338</u>
Total other financing sources (uses)	<u>(324,638)</u>	<u>(304,813)</u>	<u>(175,944)</u>	<u>19,825</u>	<u>128,869</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	82,453	(516,067)	(356,339)	(598,520)	159,728
Fund balance, beginning of year	<u>641,619</u>	<u>641,619</u>	<u>641,619</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 724,072</u>	<u>\$ 125,552</u>	<u>\$ 285,280</u>	<u>\$ (598,520)</u>	<u>\$ 159,728</u>

Kaleva Norman Dickson School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2008

	<u>Special Revenue Funds</u>		Debt Service Fund	Capital Projects Fund	Building and Site Fund	Total Non-Major Governmental
	<u>Food Service</u>	<u>Athletics</u>				
ASSETS						
Cash and cash equivalents	\$ 125	\$ 35,559	\$ 288,161	\$ 34,282	\$ -	\$ 358,127
Accounts receivables	-	3,275	-	-	15,484	18,759
Due from other governments	8,457	-	-	-	-	8,457
Due from other funds	<u>10,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,940</u>	<u>76,477</u>
Total assets	<u>\$ 19,119</u>	<u>\$ 38,834</u>	<u>\$ 288,161</u>	<u>\$ 34,282</u>	<u>\$ 81,424</u>	<u>\$ 461,820</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 1,101	\$ 139	\$ -	\$ -	\$ -	\$ 1,240
Salaries payable and related expenses	5,369	-	-	-	-	5,369
Deferred revenue	165	-	-	-	-	165
Due to other governments	12,460	-	-	-	-	12,460
Due to other funds	<u>-</u>	<u>38,695</u>	<u>773</u>	<u>18,754</u>	<u>-</u>	<u>58,222</u>
Total liabilities	<u>19,095</u>	<u>38,834</u>	<u>773</u>	<u>18,754</u>	<u>-</u>	<u>77,456</u>
FUND BALANCES						
Reserved for Debt Service	-	-	287,388	-	-	287,388
Reserved for school-based activities	24	-	-	-	-	24
Reserved for capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,528</u>	<u>81,424</u>	<u>96,952</u>
Total fund balances	<u>24</u>	<u>-</u>	<u>287,388</u>	<u>15,528</u>	<u>81,424</u>	<u>384,364</u>
Total liabilities and fund balances	<u>\$ 19,119</u>	<u>\$ 38,834</u>	<u>\$ 288,161</u>	<u>\$ 34,282</u>	<u>\$ 81,424</u>	<u>\$ 461,820</u>

Kaleva Norman Dickson School District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	Special Revenue Funds		Debt Service	Capital	Building	Total
	Food Service	Athletics	Fund	Projects	and Site	Non-Major
				Fund	Fund	Governmental
Revenues						
Property taxes	\$ -	\$ -	\$ 829,954	\$ -	\$ -	\$ 829,954
Interest	-	1,225	10,382	1,397	-	13,004
State revenues	22,972	-	-	-	-	22,972
Federal revenues	357,045	-	-	-	-	357,045
Other	130,671	20,702	-	-	81,424	232,797
	<u>510,688</u>	<u>21,927</u>	<u>840,336</u>	<u>1,397</u>	<u>81,424</u>	<u>1,455,772</u>
Total revenues						
Expenditures						
Food Service	520,375	-	-	-	-	520,375
Athletics	-	135,294	-	-	-	135,294
Other	-	-	-	234	-	234
Debt Service						
Principal	-	-	405,000	-	-	405,000
Interest	-	-	511,357	-	-	511,357
Other	-	-	1,732	-	-	1,732
Capital outlay	-	-	-	9,392	-	9,392
	<u>520,375</u>	<u>135,294</u>	<u>918,089</u>	<u>9,626</u>	<u>-</u>	<u>1,583,384</u>
Total expenditures						
REVENUES OVER (UNDER) EXPENDITURES	(9,687)	(113,367)	(77,753)	(8,229)	81,424	(127,612)
Other financing sources						
Operating transfers in	9,687	113,367	65,719	-	-	188,773
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	-	-	(12,034)	(8,229)	81,424	61,161
Fund balance, beginning of year	24	-	299,422	23,757	-	323,203
Fund balance, end of year	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ 287,388</u>	<u>\$ 15,528</u>	<u>\$ 81,424</u>	<u>\$ 384,364</u>

FEDERAL PROGRAMS

Kaleva Norman Dickson School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue July 1, 2007	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2008
United States Department of Education							
Passed through Michigan Department of Education							
Title I Grants - Educationally Deprived	84.010						
071530-0607		\$ 221,727	\$ 30,592	\$ 200,111	\$ 30,592	\$ -	\$ -
081530-0708		<u>241,838</u>	<u>-</u>	<u>-</u>	<u>226,334</u>	<u>241,838</u>	<u>15,504</u>
Total Title I Grants - Educationally Deprived		<u>463,565</u>	<u>30,592</u>	<u>200,111</u>	<u>256,926</u>	<u>241,838</u>	<u>15,504</u>
Title I - Migrant Education	84.011						
071890-0607		<u>15,970</u>	<u>232</u>	<u>540</u>	<u>232</u>	<u>-</u>	<u>-</u>
Handicapped Preschool and School							
Program 070440-0607	84.027	<u>4,000</u>	<u>1,850</u>	<u>3,850</u>	<u>1,850</u>	<u>-</u>	<u>-</u>
Title V LEA Allocation	84.298						
070250-0607		3,528	127	1,614	2,041	1,914	-
080250-0708		<u>3,440</u>	<u>-</u>	<u>-</u>	<u>1,434</u>	<u>1,544</u>	<u>110</u>
Total Title V LEA Allocation		<u>6,968</u>	<u>127</u>	<u>1,614</u>	<u>3,475</u>	<u>3,458</u>	<u>110</u>
Improving Teacher Quality	84.367						
070520-0607		65,719	18,982	65,719	18,982	-	-
080520-0708		<u>65,788</u>	<u>-</u>	<u>-</u>	<u>50,043</u>	<u>65,788</u>	<u>15,745</u>
Total Improving Teacher Quality		<u>131,507</u>	<u>18,982</u>	<u>65,719</u>	<u>69,025</u>	<u>65,788</u>	<u>15,745</u>
Technology Literacy Challenge Grants	84.318						
074290-0607		2,273	2,242	2,273	2,242	-	-
084290-0708		<u>2,113</u>	<u>-</u>	<u>-</u>	<u>354</u>	<u>2,113</u>	<u>1,759</u>
Total Technology Literacy Challenge Grants		<u>4,386</u>	<u>2,242</u>	<u>2,273</u>	<u>2,596</u>	<u>2,113</u>	<u>1,759</u>
Total passed through Michigan Department of Education		<u>626,396</u>	<u>54,025</u>	<u>274,107</u>	<u>334,104</u>	<u>313,197</u>	<u>33,118</u>
Passed through Michigan Community Service Commission							
Learn and Serve Grant	94.004						
2006-2007		14,986	6,765	14,986	6,765	-	-
2007-2008		<u>14,285</u>	<u>-</u>	<u>-</u>	<u>14,285</u>	<u>14,285</u>	<u>-</u>
Total Learn and Serve Grant		<u>29,271</u>	<u>6,765</u>	<u>14,986</u>	<u>21,050</u>	<u>14,285</u>	<u>-</u>
Total United States Department of Education		<u>\$ 655,667</u>	<u>\$ 60,790</u>	<u>\$ 289,093</u>	<u>\$ 355,154</u>	<u>\$ 327,482</u>	<u>\$ 33,118</u>

Kaleva Norman Dickson School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue July 1, 2007	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2008
United States Department of Agriculture							
Child Nutrition Cluster							
Passed Through Michigan Department of Education							
National School Lunch Program							
1950 All Lunches	10.555	\$ 33,715	\$ -	\$ -	\$ 33,715	\$ 33,715	\$ -
1960 Free and Reduced	10.555	<u>207,210</u>	<u>-</u>	<u>-</u>	<u>207,210</u>	<u>207,210</u>	<u>-</u>
		240,925	-	-	240,925	240,925	-
1970 Breakfast	10.553	<u>77,824</u>	<u>-</u>	<u>-</u>	<u>77,824</u>	<u>77,824</u>	<u>-</u>
Summer Food Service Program for Children	10.559						
070900		1,445	-	-	1,445	1,445	-
071900		<u>150</u>	<u>-</u>	<u>-</u>	<u>150</u>	<u>150</u>	<u>-</u>
Total Summer Food Service Program for Children		<u>1,595</u>	<u>-</u>	<u>-</u>	<u>1,595</u>	<u>1,595</u>	<u>-</u>
Total Child Nutrition Cluster		<u>320,344</u>	<u>-</u>	<u>-</u>	<u>320,344</u>	<u>320,344</u>	<u>-</u>
Child Care Food Program	10.558						
2006-2007		3,499	1,689	-	1,689	-	-
2007-2008		<u>8,354</u>	<u>-</u>	<u>-</u>	<u>6,238</u>	<u>8,354</u>	<u>2,116</u>
Total Child Care Food Program		<u>11,853</u>	<u>1,689</u>	<u>-</u>	<u>7,927</u>	<u>8,354</u>	<u>2,116</u>
USDA Commodities							
Bonus	10.550	-	-	-	1,059	1,059	-
Entitlement	10.550	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,289</u>	<u>27,289</u>	<u>-</u>
Total USDA Commodities		<u>-</u>	<u>-</u>	<u>-</u>	<u>28,348</u>	<u>28,348</u>	<u>-</u>
Total United States Department of Agriculture		<u>332,197</u>	<u>1,689</u>	<u>-</u>	<u>356,619</u>	<u>357,046</u>	<u>2,116</u>
Total Federal Financial Assistance		<u>\$ 987,864</u>	<u>\$ 62,479</u>	<u>\$ 289,093</u>	<u>\$ 711,773</u>	<u>\$ 684,528</u>	<u>\$ 35,234</u>

Kaleva Norman Dickson School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of	
Federal Awards	\$ 684,528
National Forest Tax	<u>24,025</u>
 Federal sources per financial statements	 <u><u>\$ 708,553</u></u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Kaleva Norman Dickson School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Kaleva Norman Dickson School District*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1 to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described in the accompanying Schedule of Findings and Questioned Costs is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 2, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Kaleva Norman Dickson School District

Compliance

We have audited the compliance of ***Kaleva Norman Dickson School District*** (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended June 30, 2008. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

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Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 2, 2008

Kaleva Norman Dickson School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008

CURRENT YEAR

Section 1 - Summary of Auditor's Results

1. The auditor's report represents an unqualified opinion on the financial statements of Kaleva Norman Dickson School District.
2. There was one material weakness in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. There were no significant deficiencies in internal control over major programs.
5. The report over compliance for major program was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major programs were the Child Nutrition Cluster and USDA Commodities.
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. The School District does not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2008-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the School District's *internal* controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

PRIOR YEAR

Finding Number 2007-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the School District's *internal* controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Status: This finding is repeated for the year ended June 30, 2008.



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Kaleva Norman Dickson School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kaleva Norman Dickson School District (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated October 2, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

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Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement applicable to each of its major Federal programs for the purpose of expressing an opinion on the School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the School District's compliance with those requirements.

Internal Controls

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

We consider the following deficiencies to be a *material weakness* in internal controls:

Preparation of Financial Statements

The preparation of financial statements is the responsibility of the School District's management and requires internal controls over both (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related note disclosures (i.e., external financial reporting). The School District has historically relied on their independent external auditors to assist with the preparation of the financial statements and related note disclosures as part of its external financial reporting process. Accordingly, the School District's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the School District's internal controls.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 3, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kaleva Norman Dickson School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Accumulated leave liability
Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Risk Management
Commitments and Contingencies

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In our opinion, none of the misstatements we proposed, whether recorded or unrecorded by the School District, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Unrecorded Adjustments

Property tax revenues have been recorded based on actual tax collections vs the total estimated amount due. Both we and the School District's management have evaluated the valuation and consider any difference to be immaterial.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 2, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Kaleva Norman Dickson School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Kaleva Norman Dickson School District and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

October 2, 2008